

# Implementation Statement

## Introduction

This SIP Implementation Statement (“the Statement”) has been prepared by the AXA UK Group Pension Trustees Limited (“the Trustee”) in relation to the AXA UK Group Pension Scheme (“the Scheme”).

This Statement has been produced by the Trustee as required by the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended). The regulations state that the Statement must (amongst other matters):

- set out how, and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles (“SIP”) has been followed during the year;
- describe any review of, and explain any changes made to, the SIP during the year; and
- describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the year and state any use of the services of a proxy voter during that year.

Based on regulatory requirements, the Statement will cover the period from 1 April 2023 to the end of the Scheme’s financial year on 31 March 2024.

The Statement is split into three sections:

1. an overview of the Trustee’s actions and highlights during the period covered;
2. the policies set out in the SIP and the extent to which they have been followed in the reporting period; and
3. the voting behaviour and significant votes undertaken by the fund managers on behalf of the Scheme.

## SIP Updates

The August 2021 SIP was updated in November 2023 to update the Trustee’s Responsible Investment Policy. This reflects the latest DWP guidance on the reporting of stewardship activities through Implementation Statements which came into effect from 1 October 2022.

## Overview of Trustee’s Actions

### Investment Objectives and Strategy

During the reporting period there was no change to the Scheme’s overall full funding objectives.

There were a number of investment changes over the year. These included:

- Transition of the LDI portfolio, which hedges the Scheme’s interest rate and inflation rate hedges, from BlackRock to AXA IM, which was completed over 18<sup>th</sup> to 22<sup>nd</sup> March 2024.
- Implementation of cross-currency swaps within the Alliance Bernstein Credit Fund to hedge FX and Interest rate risks within the portfolio. This was completed in two phases in December 2023 and February 2024.
- In February 2024, the Trustee agreed to invest in Next Energy UK ESG Fund, with the first investment made in June 2024. This investment helps to increase the proportion of the Scheme’s assets invested in green assets, as part of its ESG targets.

- In February 2024, the Trustee agreed to invest in an AXA IM Asset Backed Securitised Fund. The first investment was made in July 2024.
- Redemptions were made from AXA IM Global Secured Assets and the AXA IM Alternative Credit Funds in order to improve liquidity within the Scheme, to reduce the total proportion of Scheme assets invested in illiquid assets to below the limit of 40%.

Overall, the Scheme's agreed strategic asset allocation continues to reflect the Trustee's view of the most appropriate investments, balancing risk/reward characteristics of the funds the Scheme is invested in, to support the Scheme's full funding objective.

## Trustee's policies for investment managers

The Trustee relies on investment managers for the day-to-day management of the Scheme's assets but retains control over the Scheme's investment strategy.

The Investment Managers are responsible for the day-to-day management of the Scheme's assets in accordance with guidelines agreed with the Trustee, as set out in the Investment Management Agreements ("IMAs") or pooled fund prospectuses. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines.

In 2023, the Trustee set up a new organisation called AXA UK Group Pension Scheme Management Limited ("AXA UK GPSM") to implement the Scheme's investment strategy. The role of AXA UK GPSM is set out in their IMA. The Investment Managers report to AXA UK GPSM regularly regarding their performance, which in turn reports back to the Trustee. Each of the investment managers' fees are related to the amount of assets managed within their portfolios. Minimum fees may also apply in some cases.

## Final Remarks

As demonstrated in the following sections of this Statement, the actions the Trustee has undertaken during the relevant reporting period reflect the policies within the Scheme's SIP. Any changes to the investment strategy agreed during the period but implemented after the period had ended will be reported against in the next Implementation Statement.

The responsibility for managing the Scheme's holdings is delegated to its fund managers. The Trustee believes that the Scheme's fund managers are well placed to engage with invested companies on environmental, social and governance ("ESG") matters, given their knowledge of the company and the level of access they have to company management. This is also a pragmatic approach because of the number of positions owned by the Scheme, and the amount of time corporate entities have available for single investors. However, the Scheme sets out its expectations to its asset managers in terms of corporate governance via its Statement of Investment Principles.

The Trustee believes that it should act as a responsible steward of the assets in which the Scheme invests as this can improve the longer-term returns of its investments. The Trustee notes that sustainable financial outcomes are better leveraged when supported by good governing practices, such as board accountability.

Over 2024/25, the Trustee plans to consider how best to meet the DWP’s new expectations on stewardship and move to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee’s approach will be taken with regard to the Scheme’s governance constraints and in the best interest of the Scheme’s members. In particular, the Trustee has considered its own stewardship priorities and has refined its SIP and Responsible Investment Policy accordingly.

To best channel stewardship efforts, the Trustee believe that the focus should be on key themes. The themes have been selected by assessing their relevance to the Scheme and its members, the financially material risks that they pose, and the maturity and development of thinking within the industry that allows for ease of integration into the Trustee’s approach. The themes of the Employer were also considered when selecting the themes for the Scheme. The key theme the Trustee selected in November 2023 was Climate Change. It was agreed in March to add an additional theme of Diversity, Equity, and Inclusion (DE&I) which will be reflected in the next update of the SIP. The Trustee will consider additional themes in the future and will include them in the policy if deemed significant and relevant.

The Trustee, via AXA UK GPSM and their fund managers, engages with its managers to ensure that they are in turn engaging with the underlying investee companies on these priorities.

## Review of SIP Policies

The Trustee last reviewed the Scheme’s Statement of Investment Principles in November 2023.

Overall, the Trustee is satisfied that:

- The Scheme’s investments have been managed in accordance with the SIP; and
- The provisions in the SIP remain suitable for the Scheme’s members.

Policy	Has the policy been followed?	Evidence
<b>Funding Objectives</b>		
<p>The ultimate aim of the Trustee is to ensure that the Scheme is able to meet pension payments in full as they fall due, meet expenses of the fund and minimise the risk of any potential shortfall. In other words, that the Scheme is self -sufficient. The discount rate used to target the Scheme’s ultimate self-sufficiency basis is consistent with that of the Technical Provisions liabilities. This is recalculated annually. As at 31 March 2021 this equated to an overall discount rate of Gilts + 0.86% p.a.</p> <p>The Trustee is targeting a fully funded Scheme by 2031.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The position of the Scheme against its self-sufficiency objective is reviewed on a quarterly basis by the Trustee, with clear written advice provided by either the in-house team or the Investment Consultant if either party deem the Scheme to be moving away from this target.</p>

## Investment Strategy

The investment strategy is set by the Trustee cognisant of the funding objectives, the actuarial valuation and the Principal Employer Covenant. The overall aim of the strategy is to allow the Scheme to achieve its investment objective without taking unacceptable risks to do so.

The Trustee seeks to invest the majority of the portfolio in low risk cashflow generative assets to match as much of the liability cashflows as is affordable. As the Scheme becomes better funded they will look to increase the proportion of the portfolio in cashflow generative assets.

Yes, the Trustee is satisfied that this policy has been followed.

The Trustee works closely with its advisers and AXA UK GPSM to ensure that the investment strategy remains appropriate.

As at March 2024, c.58% of the Scheme's hedging cashflows were matched with most of the matching being achieved for terms under 30 years.

Over the year, the Trustee has considered its liquidity requirements. As part of this, it has focussed on increasing the liquid assets (albeit non-cashflow matching given that the Scheme is currently ahead of its cashflow-matching target), considered its target level of collateral headroom, and moved a portion of FX hedging to its cashflow matching portfolios.

## Risk Management

The Trustee recognises and monitors a number of risks. In doing so the Trustee considers the risk of both investment risk alongside other non-investment risk to ensure the overall risk of the Scheme is within the Trustee agreed tolerance.

Yes, the Trustee is satisfied that this policy has been followed.

The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitors and manages these risk factors through measures specific to each risk on a quarterly basis. It seeks guidance and written advice from its Investment Consultant as appropriate. Liquidity/collateral risk has remained a key focus over the year.

## Balance between different kinds of investments & the expected return on investments

The strategic asset allocation benchmark is designed to ensure that the Scheme's investments are adequately diversified and that the strategic distribution across asset classes provides a reasonable level of confidence that the level of returns required to meet the Scheme's liabilities is achieved with an acceptable level of risk.

The Trustee considers the long-term mixture of assets in relation to the Scheme's liabilities through an integrated asset/liability study. As a result of this analysis, the Trustee adopt an asset allocation specific to the requirements of the Scheme, taking into account expected returns, risk and liquidity on different asset classes.

The investment strategy takes due account of the maturity profile (in terms of the relative proportions of liabilities in respect of pensioners and deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used). It is intended that investment strategy will be reviewed at least every three years, following actuarial valuations.

Yes, the Trustee is satisfied that this policy has been followed.

Investment strategy decisions are made in the line with the AXA UK GPSM IMA which considers relevant constraints and limits to ensure the actual strategy remains in line with the overall strategy targets.

AXA UK GPSM, with support from the investment consultant, are developing a decision-making framework to ensure that the impact on relevant strategic metrics (including risk and return) are monitored and considered as part of any investment strategy proposals.

The investment advisers are available to provide written comment if it is deemed that the overall risk/return profile is not suitable to meet the Scheme's objectives.

The overall liquidity profile of the Scheme was also monitored throughout the Scheme year, with a target of reducing the allocation to illiquid assets below 40%. This target was met over 2024.

The cashflow matching strategy that is being implemented by the Scheme takes account of the maturity profile of the liabilities to ensure that it matches a portion of the liability cashflows.

## Kinds of investment to be held

The assets of the Scheme may be invested in quoted and unquoted securities on UK and overseas markets, mostly including, but not restricted to, equities, fixed interest bonds, index-linked bonds, property, hedge funds and cash. Use may also be made of derivatives and other contracts for the purpose of efficient portfolio management or management of investment risk.

The assets will not be invested directly in securities issued by the Employer or its ultimate parent AXA S.A., in securities issued by associate companies of the investment managers, or in companies which contravene the Ottawa Convention.

The Trustee will also consider, from time to time, requests from the Employer not to hold, or not to increase, or to sell certain types of securities or asset strategies.

Trustee decisions on such requests will recognise at all times that the Trustee's primary responsibility is to act in the best financial interests of the beneficiaries of the Scheme and that the Trustee must not engage in the day-to-day management of the assets.

Yes, the Trustee is satisfied that this policy has been followed.

The assets that the Scheme is invested into fall into the three separate portfolios:

1. Non-cashflow matching portfolio. This provides excess return over the liabilities to reduce the funding deficit.
2. Cashflow matching portfolio. This invests in fixed income assets that distribute regular cashflows to meet a portion of ongoing benefit payments
3. Lump Sum Portfolio. This is used to pay lump sum benefits that are more uncertain, such as transfer values.

No assets issued directly by the sponsoring employer were held over the course of the Scheme year.

There were no requests over the course of the year from the sponsoring employer on which assets not to hold.

## Day-to-day asset management

The Trustee delegates the day-to-day management of the assets of the Scheme to a number of investment managers. Investment managers are carefully selected to manage each of the underlying mandates following guidance and written advice from the investment adviser(s). As required under Section 36 of the Pensions Act 1995, the Scheme's investment adviser supporting the Trustee on a manager selection will provide written advice on new manager appointments in respect of the "satisfactory" nature of the investments.

Yes, the Trustee is satisfied that this policy has been followed.

Manager selection follows a rigorous due diligence process supported by AXA UK GPSM, the Scheme's investment advisor (Redington), the Scheme's ad-hoc manager selection consultant (Mercer), the Scheme's legal advisor (Travers Smith), and AXA UK plc ("the company").

This process is recorded and documented, and with Section 36 letters being obtained for all managers selected to provide services to the Scheme.

Where specialist knowledge is required, the Scheme engages dedicated consultants to support the due diligence and selection process. For example, the Trustee utilised AXA Prime's due diligence for the Next Energy UK ESG Fund, which the Trustee agreed to invest in February 2024.

The Trustee, through its quarterly investment focussed Trustee Board meetings, monitors the Scheme's asset managers' performance against any appropriate benchmarks and to ensure that the portfolios are being managed consistently with regards to the Scheme's strategic objectives.

## Considered risks

The risks, as stated in the SIP are assessed and monitored regularly.

Yes, the Trustee is satisfied that this policy has been followed.

The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitors and manages these risk factors through measures specific to each risk on a quarterly basis. It seeks guidance and written advice from its Investment Consultant as appropriate. Liquidity/collateral risk has remained a key focus over the year.

## Responsible Investing Policy

The Trustee considers it has a responsibility towards its members including the impact the Scheme's asset portfolio has on our society at large.

In pursuing an RI policy, the Trustee references the overriding objective of attaining full funding for the Scheme.

It therefore considers the policy in the context of required return and risk budget while framing changes in the context of the length of time the Trustee considers it necessary to reach this target.

It is in this context that the Trustee has mandated the development of a global approach to responsible investment issues which takes into account inclusion of ESG issues in investment processes, from a performance and risk management perspective; and also controversial sectors.

Yes, the Trustee is satisfied that this policy has been followed

The Trustee reviews the ESG characteristics of the Scheme's portfolio at the quarterly investment focussed Trustee Board meetings, this includes ESG ratings on a global and portfolio-by-portfolio level, the warming potential of the asset holdings and associated carbon footprint. The Trustee benchmarks the Scheme against the indices on key social and governance objectives. Any breaches of sector exclusions e.g. coal, tobacco are also noted within the quarterly reports.

The Trustee updated their SIP in November 2023 to update the Trustee's Responsible Investment Policy. This reflects the latest DWP guidance on the reporting of stewardship activities through Implementation Statements which came into effect from 1 October 2022.



## Responsible Investment Strategy

Pension Scheme's Responsible Investment Strategy is based on the main following pillars: ESG integration and stewardship, Carbon Footprint & Climate-related portfolio alignment, Green investment target, transition financing and impact investments and the final pillar: Controversies – engagement and exclusion.

Based on these pillars and to demonstrate commitment to a Responsible Investment approach the Trustee have agreed to the following targets under which it will regularly monitor the Scheme's asset portfolio and adjust either the Scheme's strategy or implementation to meet these targets, but only to the extent that these do not have a negative financial impact:

- Maintain and incrementally approve the integrated ESG score
- Target net zero emissions by 2050.
- Actively exclude investments that are considered controversial as defined by the Scheme's policy
- Target a green investment exposure to exceed 1% by 2025 through a multi-class asset approach
- Target 1.5 degree C climate warming potential by 2050

Yes, the Trustee is satisfied that this policy has been followed.

The Trustee monitors each of these objectives as part of its quarterly investment focussed Trustee Board meetings.

The Scheme's ESG score has remained flat over the year and the carbon footprint has reduced by 15% from 2021.

There remained a limited exposure to excluded asset classes which the investment manager seeks to remove when opportunities arise so as not to negatively impact the Scheme's funding position.

The Scheme also continues to move towards a greener portfolio and reduce its warming potential.

The Scheme has achieved its target green investment exposure of 1% at 31 March 2024, a year ahead of schedule. The target has been met due to new investments in the Infrastructure Fund. This proportion will increase further over the coming year following investment in Next Energy UK ESG Fund.

## Target and risk monitoring

The Trustee monitors the Scheme's assets against its approach to ESG on an ongoing basis with the assistance of its advisors. In addition, the Trustee regularly report identified climate-risks and opportunities which they consider will influence the Scheme's investment strategy (and member security) and assess their impact.

As far as they are able, the Trustee, undertake scenario analysis assessing the impact on the Scheme's assets and liabilities, the resilience of the Scheme's investment strategy, the Scheme's funding strategy, and impact on the above agreed targets.

Yes, the Trustee is satisfied that this policy has been followed.

The Trustee monitors the ESG characteristics of the Scheme's asset holdings on a quarterly basis.

As part of the TCFD requirements the Trustee undertakes climate scenario testing which demonstrates the resilience of the portfolio and the performance of the Scheme against its ESG objectives.

## Stewardship and engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities, are an important part of general Scheme governance as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expects their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social and governance considerations, and using voting rights to effect the best possible long-term outcomes.

The Trustee assesses the ability of each investment manager in engaging with

Yes, the Trustee is satisfied that this policy has been followed.

The Trustee exercises rigorous due diligence in the manager selection process and ensures that in selection the investment manager is situated to provide long term success to the Scheme within its mandate. During the selection of the Next Energy Fund for example, AXA UK GPSM provided the Trustee a detailed report including details of the overall renewables market, the specific investment opportunity, an overview of different funds in the space, an explanation of the ESG impact and a summary of the key risks associated with the strategy.

The Trustee monitors the implementation and management activities of the Scheme's investment managers, as well as performance on a quarterly basis.

Periodically the Trustee meets with the Scheme's investment managers,

underlying companies in order to promote the long-term success of the investments. This review occurs on an annual basis and focuses on determining whether the investment managers have acted in line with this policy.

supported by the Scheme's advisors, to engage in detailed analysis of each mandate to ensure the managers approach and activities continue to align to the long term best interests of the Scheme. This includes strategy reviews, performance reviews, ESG reviews, personnel updates, stewardship reviews. For example, AXA IM and AB presented to the Trustee in the February board meeting on Stewardship within the credit matching strategy funds.

The Scheme does not hold any physical asset whereby the Trustee has a voting right. It is noted the Scheme's equity exposure (prior to its removal during the year) was obtained synthetically.

The Trustee has considered its own stewardship priorities and has refined its SIP accordingly to meet the DWP's new expectations on stewardship. To best channel stewardship efforts, the Trustee selected Climate Change as a key theme in November 2023. It was agreed in March 2024 to add an additional theme of Diversity, Equity, and Inclusion (DE&I) which will be reflected in the next update of the SIP. The Trustee will consider additional themes in the future and will include them in the policy if deemed significant and relevant.

## Final Remarks

Overall, the Trustee has demonstrated key actions for the Scheme during the relevant reporting period that show how it continues to make investment decisions in line with the policies set out in the SIP.

The reporting period for this Statement covers 1 April 2023 to 31 March 2024. Any actions undertaken by the Trustee after this date will be covered in the next Statement.